GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3588
ANSWERED ON:16.12.2005
PRIORITY SECTOR LENDING
Rao Shri Sambasiva Rayapati

Will the Minister of FINANCE be pleased to state:

(a) whether World Bank has suggested that Indian Government may revise its policy of setting interest `caps` on deposit rates on rural lending rates and floors on deposit rates because the high transaction costs and collateral requirements are malting banking unattractive for the rural poor;

(b) if so, the details thereof ;

(c) whether the World Bank has also suggested that Government may relook the priority sector lending since the prescribed quotas are not being fully observed by the commercial banks ;

(d) whether the Government has examined these observations made by World Bank; and

(e) if so, the steps being taken by the Government in this regard ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S.PALANIMANICKAM)

(a)&(b) : Yes, Sir. World Bank has made certain observations in its report (December 2004) .. titled `Scaling up Access to Finance for India`s Rural Poor`. The report of the World Bank ` Â¦ mentions that `One obvious area could be for Government to revisit its policy of setting interest - rate caps on rural lending rates and `floors` on the deposit rates. As noted above, caps and -Tv floors have the opposite effect of what is intended - poor borrowers are cut off from access and :- end up paying higher interest rates to informal lenders. Meanwhile, banks face an implicit tax : - (cost) that is not insignificant.

(c)to(e) : RBI has deregulated interest rates on loans given by trie banks vide its circular dated 17th October, 1994. Banks are free to determine the rate of interest taking into account the 03 cost of funds and tfoe risk element involved. However, RBI has stipulated that interest rate on loans by Commercial Banks upto Rs.2.00 lakhs should not exceed, the Benchmark Prime Lending Rate (BPLR) and loans upto Rs.50,000/- should be collateral free. Further, Indian Blanks Association has advised public sector commercial banks in. trie year 2003 to charge Of interest rate of not more than 9% p.a. on crop loans upto Rs.50,000/-.

Since October 1997, Reserve Bank of India has given freedom to commercial banks to fix their own interest rates on domestic term deposits of various maturities with prior approval of their respective Board of Directors/ Asset Liability Management Committee (ALCO).However interest rate on Savings Deposits (Savings Banks Accounts) is regulated by Reserve Bank of Government and RBI constantly monitor the credit needs of different sectors of the economy and undertake corrective measures, when required, to ensure that adequate funds flow to Agriculture, Small & Medium Enterprises and such other important sectors Keeping in view the continuous demand to include new areas such as infrastructure within the ambit of -r priority sector and sugestion that the focus of the needy sectors of the economy and weaker sections of the society is getting lost because of inclusion of additional, sectors in priority sector lending, RBI has set up an Internal Working Group to review the existing policy on priority sector lending.